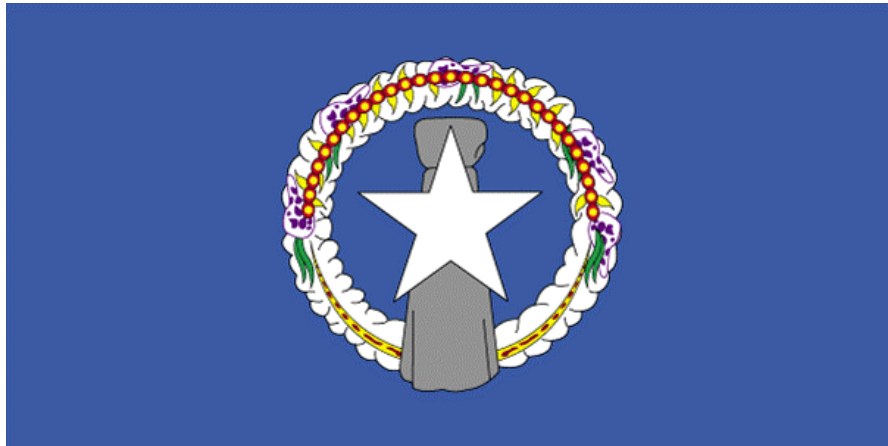


# **COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS BUSINESS OPPORTUNITIES REPORT**

**PREPARED FOR THE UNITED STATES DEPARTMENT OF THE INTERIOR  
OFFICE OF INSULAR AFFAIRS**



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Disclaimer: This document has been prepared by MBA students, or recent graduates, to disseminate information on the Commonwealth of the Northern Mariana Islands for the purposes of the 2004 Business Opportunities Conference sponsored by the U.S. Department of the Interior, Office of Insular Affairs. The views and recommendations contained in this document, however, are solely those of its author and not the U.S. Government or any agency or officer thereof. Those intending to initiate ventures in this location are advised to conduct independent due diligence.

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## EXECUTIVE SUMMARY

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The Commonwealth of the Northern Mariana Islands (CNMI) is strategically located a few hours away from major Asian destinations (Japan, Korea, China). While being under the sovereignty of the USA, the CNMI benefits from determining its own immigration and tax structure, and certain aspects of labor regulations, such as setting its own minimum wage. These assets have the potential to bring the CNMI to the forefront of U.S. mainland investors and business people's strategy '*en route*' to Asia.

In the late 1980's and early 1990's, the CNMI enjoyed its golden years with a continuous stream of revenues, generated by Japanese tourists, supporting their economy. The economy has also benefited, more recently and after some controversies, from the garment industry that is now recognized as having made substantial progress and improvements in the areas of workplace environment and self regulation. The CNMI has capped, however, the maximum number of nonresident garment workers in Saipan factories by establishing an industry moratorium.

In 2004, the CNMI is at a turning point in its economic evolution, when major decisions need to be made in order to put the Northern Mariana Islands on track towards long term sustainable development. In order to attain future sustainable economic and social rewards, it is of paramount importance to shape the infrastructure of the islands as well as increase the education level to match future needs.

This report, designed to provide a basic and general understanding of the business and investment climate in the CNMI, highlights the geographical, human, legal and structural benefits and challenges available in the CNMI.

The CNMI, relying heavily on tourism, has suffered in the past 10 years from the volatility of the industry. Furthermore in January 2005, the CNMI garment industry will lose some of its competitive advantages. The time has come to put in place industries that will diversify the economy of the island while benefiting directly and indirectly the vast majority of the population.

This report will discuss four main strategic sectors for the CNMI:

- Transshipment, US Customs Pre-Clearance, Free Trade Zone
- Tourism
- Film Industry
- Education

Each strategic sector is interdependent and is benefiting from the successful development of the other economic sectors.

Both the local government and the business community welcome and support sustainable economic development in the CNMI.

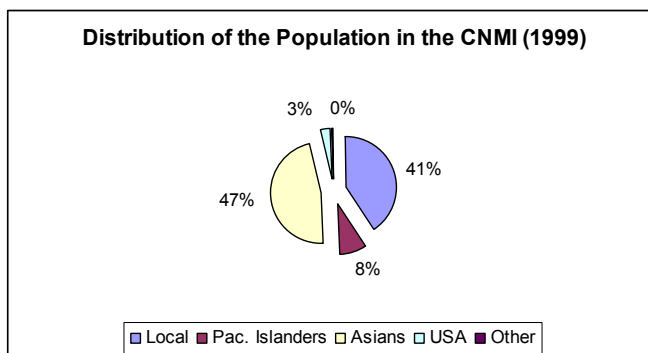
## BACKGROUND

The Commonwealth of the Northern Mariana Islands (CNMI) is located in the northwestern Pacific Ocean. While close to Asia, (2,000 miles from Korea, 1,500 miles from Japan and the Philippines, and 1,400 miles from Taiwan) the CNMI has the advantage of being affiliated with the United States. The CNMI consists of 14 islands organized in four municipalities: Saipan<sup>1</sup>, Tinian, Rota, and the Northern Islands<sup>2</sup>.

Over the years, the Marianas have been governed by a number of foreign rulers. The original Chamorro and Carolinian customs have been influenced by Spanish, German, Japanese, and more recently American culture.

Since 1986, the Commonwealth of the Northern Mariana Islands have been governed by a Covenant with the U.S., “*as a political union with and under the sovereignty of the United States of America.*” The CNMI benefits from its own immigration and wage laws and is governed by an elected Governor. This independence has been a key factor for past economic growth and will be instrumental for the territory’s future economic success. The CNMI has a bicameral legislature consisting of an eighteen-member House of Representatives and a nine-member Senate.

With an estimated population of over 69,000 people, the CNMI has grown at an annual rate of over 7% over the past 20 years, mainly due to foreign labor. The Commonwealth is now the only Pacific Island where foreign-born residents outnumber indigenous residents, by a ratio of nearly 1.5 to 1.



Based on the Gross Business Revenues (GBR)<sup>3</sup> in 2002, the main industries were: garment manufacturing, retail trade/gas stations, wholesale trade, other trade and other services. Note that the Commonwealth does not use macroeconomic accounting methods, so the best assessment of business activities is GBR. Although “tourism” is not a

<sup>1</sup> Accounts for 90% of the population.

<sup>2</sup> Inhabited by only a handful of residents.

<sup>3</sup> Source: Commonwealth of the Northern Mariana Islands – Economic Report – October 2003 – Bank of Hawaii, p14.

## BACKGROUND

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category that appears as such in GBR, it is a main, if not the primary, engine supporting the economy of the CNMI. The estimated GDP in 2003 was \$557 million<sup>4</sup>.

Local agriculture is quasi nonexistent and provides for less than 10% of the local employment. Goods and produce are imported mainly from Asia and the United States.

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<sup>4</sup> Source: Commonwealth of the Northern Mariana Islands – Economic Report – October 2003 – Bank of Hawaii, p3.

## ECONOMY

### *Key Economic Statistics*

Population	74,151	Gross Domestic Product (Million US\$)	\$696.3
Total Labor Force	44,258	GDP per capita (US\$)	\$8,047
Total Employment	42,753	Minimum wage (US\$ per hour)	\$3.05
Private Sector	36,811 (86.1%)	Visitors arrival	459,457
Local Government	4,558 (10.7%)	Average room occupancy rate (monthly)	64.8%
Federal Government	438 (1%)	Imports (Million US\$)	\$682.5
Unemployment Rate (%)	3.4%	Exports (Million US\$)	\$792.1

*Sources: CNMI Department of Commerce, Bank of Hawaii Economic Report (2003), Mariana Visitors Authority*

The economy of the CNMI revolves around two major industries, tourism and the garment industry.

The CNMI tourism industry is slowly recovering and in 2004 is expected to increase 20% in total tourist traffic, raising total arrivals to about 570,000. The improving Japanese economy and expected growth in the number of Chinese tourists visiting will make it possible to restore inbound visitors closer to mid 1990's<sup>5</sup> levels.

On the other hand, the garment industry on Saipan faces different challenges. As of January 2005, Saipan garment-makers will lose one of their major competitive advantages - as a unique quota-free location. According to the WTO, import quotas to the U.S. on previously restricted countries such as China and Vietnam will be lifted. This will enable these countries to meet the U.S. demand for garments without relying on external support from CNMI garment manufacturers.

Besides tourism and the garment industry, no other major industry drives CNMI's economy. The islands' unique location, in the heart of the Pacific, as well as its unique features as a U.S. Commonwealth controlling its own immigration, tax, and labor laws makes it a very attractive destination for many businesses that want to establish a presence in Asia. Potential businesses would also benefit from the protection of the US flag.

### **Garment Manufacturing**

The garment industry flourished in the CNMI over the last 20 years, benefiting from local control of immigration and labor matters as well as free import duties on goods "manufactured in the CNMI". Despite negative attention, received in the 1990's from the US national media over below standard working conditions in the industry, garment manufacturing has since reached a stage of maturity and has achieved one of the highest levels of industry expertise.

In 2002, the garment industry contributed 24% of Gross Business Revenues<sup>6</sup> and employed about 15,000 workers<sup>7</sup> (about 40% of the total workforce).

<sup>5</sup> Peaked at 736,000 in 1996.

<sup>6</sup> \$473.1 million out of \$2,008.9 million.

The CNMI has been able to sustain their garment industry as a result of the following factors:

- a) Backlogs created by WTO quota restrictions - The CNMI is able to “pick up the slack” once countries such as China reached their quota (usually by the fall of each year). This is expected to change on January 1, 2005.
- b) Relatively low wages for workers - At a rate of \$3.05 per hour (plus health, board and room benefits), the CNMI remains relatively competitive in the garment industry.
- c) Free of import tax into the USA - By adding 50% of its value in the CNMI, a garment product becomes “made in the CNMI” and thus is allowed to be imported to in the U.S. free of taxes. This provision allows importing garments into the U.S. at 17.25% cost advantage over comparable products produced worldwide. In addition, there are no quotas restrictions.
- d) Small batches and short turnaround time - One of the key factors that will allow the garment industry to survive, in a world of “perishable fashion”, is the production of small batches. Small batches must be produced in various styles to satisfy the customer requests for new products. Quick turnaround time is tremendously important as it provides for higher flexibility and reactivity to clients needs.

However, a few factors have prevented the garment industry from further developing and benefiting CNMI’s economy:

- a) Pre-cutting the fabric at source of origin (i.e., China) - Why is it necessary to import the fabric bulk when it could be imported pre-cut? The advantages of pre-cutting the fabric are to reduce operation lead time while eliminating waste. By adopting the pre-cut process, the CNMI would essentially become an assembly, packaging and logistic center.
- b) Decreasing the added-value requirement from 50% to 30% - Garments manufactured on the CNMI are not subject to any of the import quotas or tariffs applied to garments manufactured in other countries. Under General Note 3 (a), garments and other textile products can be imported in the U.S. tax free if they comply with a 50% value-added criterion.
- c) Decreasing the added-value requirement to 30% would allow the CNMI to enter the technical/high-value raw material market and put garments on the same level as any other manufactured product. Currently working with

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<sup>7</sup> Most of them are non-resident workers.

expensive raw material is not an option since the cost of such material will not allow local manufacturers to meet the 50% local added value requirement.

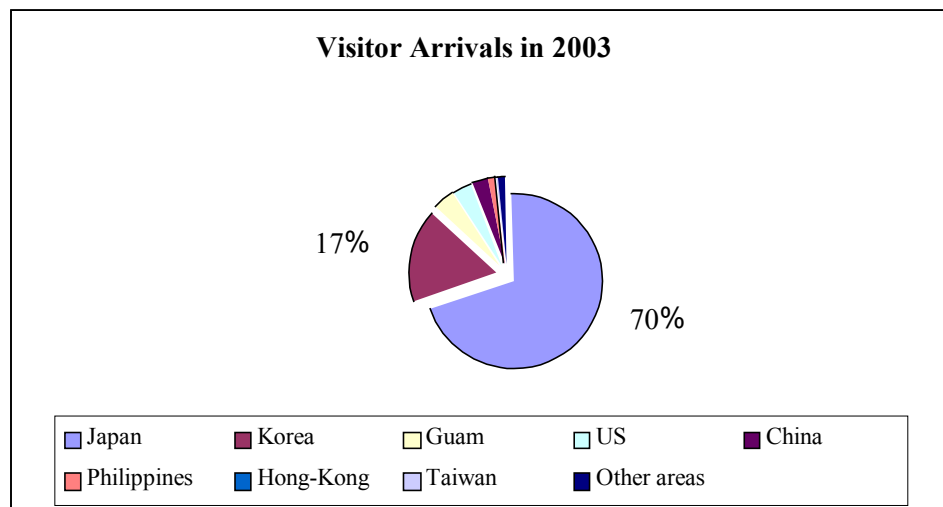
Under the WTO Agreement on Textile and Clothing, all textile and garment quotas between member countries will be phased out by 2005. However, tariff protection will continue. CNMI-based manufacturers have enjoyed for many years orders that supplement production from quota-restricted countries (i.e., China, Vietnam).

As a result of its unique situation, the CNMI in the near future can become a very innovative and competitive player in the garment industry. This will require the garment manufacturers, with the support of the local government, to specialize in higher margin products (i.e., more technical), small batches (allowing for quick reaction to client's orders), and with a very short turn around time (no custom/import delays).

### Tourism

The Mariana Islands chain is an attractive tourist destination with pristine natural beauty, developed infrastructures and world-class resorts. Providing an array of recreational activities, each of the three main islands is appealing to a specific target group. Saipan is geared toward families, offering duty-free shopping and world-class resorts; Tinian appeals to gamblers, offering its casino; and Rota attracts eco-tourists.

Tourism grew rapidly in the early 1990's reaching 736,000 tourists in 1996. However, in the past 8 years, primarily relying on Japanese tourists, the tourism industry suffered from the decline of the Japanese economy. In 2003, the average monthly room occupancy rate was at a sluggish 64.88% with rooms offered at discount rates as opposed to the mid 1990's.



Source: Mariana Visitors Authority



## ECONOMY

With the financial crisis in 1997, the terrorist attacks on New-York and Washington in 2001, the SARS epidemic in 2003 and more recently the US war in Iraq, tourism has been quite volatile.

The CNMI was not prepared for such volatility in the industry and suffered diminishing revenues. As a result of revenues generated by the garment industry over the past decade, the CNMI economy did not totally sink. However, during that period the CNMI did not benefit from any new major investment.

The Mariana Visitors Authority is now targeting the Chinese tourists. It is anticipated that the CNMI will soon receive an “*Approved Destination Status*” from the Chinese government. Three representative offices were opened in China in 2004<sup>8</sup>, and a new charter flight is scheduled to run twice a week between Shanghai and Saipan. The growth of the Chinese economy and correlated increase of Chinese outbound tourists<sup>9</sup> makes it a very promising market.

The Chinese tourists market presents a great potential for the CNMI.

### Profile of the Chinese Outbound Tourist:

- Age structure: 25-34 (25.3%), 35-44 (26.4%), 45-54 (19%), 55-64 (11.7%)
- Occupations: Professional/Technical & Related (23%); Administrative Management (22%); Student / housewives / retirees (16%); Sales related (23%)
- Purpose for travel: While in the past, outbound travel was mostly for business purpose, a recent study from the World Tourism Organization shows that more than 90% of outbound travel is now leisure and holiday
- Personal daily expenditure: Around \$250<sup>10</sup>

In 1996, the per capita expenditure of mainland travelers in Macao was the fourth highest among travelers of all countries and regions, only after Southeast Asia, Taiwan, and Japan. Neither the per capita GDP nor the disposable income is high. But the expenditure ability of Chinese outbound tourists should not be underestimated. Since 1997, per capita expenditure of the mainland passengers has been the highest, much higher than the average expenditure. The Chinese outbound visitors to Macao grew from about half a million in 1997 to more than 1.6 million in 1999. The average daily expenditure is US\$265, due largely to gambling.

The initiatives from the Marianas Visitor Authority, complemented by a clearer positioning of the Northern Mariana Islands as a tourism destination, should rejuvenate the tourism industry for the years to come.

<sup>8</sup> In Guangzhou, Shanghai, and Beijing

<sup>9</sup> Estimated as 30-60 million outbound tourists in the next ten to twenty years.

<sup>10</sup> Source : Singapore, Macao

## Competitive Advantages

- **Location:** Proximity to major Asian markets.
- **Control over immigration:** Flexibility to attract non-resident workers and tourists from any country.
- **Minimum wage:** Lower than in the U.S. at \$3.05/hr.
- **Governance:** U.S. jurisdiction and courts, political stability.
- **Duty free zone and quotas exemptions until 2005:** Development of exporting industry to the USA.
- **Infrastructure:** Roads, shipping routes, telecommunication.
- **Climate and environment:** Tropical but moderate climate, perfect for recreation, however prone to typhoons
- **Language and currency:** English is widely spoken, and the US dollar is the official currency in the CNMI. Chamorro, Carolinian, Japanese, Korean, Tagalog, and Chinese are also frequently spoken languages in the CNMI.

## Challenges

- **Utilities:** Water supply in Saipan. The water system is currently being restructured and upgraded to US Federal standards. A poor water system is a drawback to investments in the CNMI. Significant amount of funding is being injected in the water utilities. Water system constructions thus represent great opportunities for external investors.
- **Education:** Lack of local technical training (e.g., accountants, plumber, electrician, engineer). Less than 20% of the population has a College degree. Brain-drain is a major problem for the CNMI and is caused by the lack of career perspectives locally. The best students tend to pursue their education on the mainland where job opportunities are much more attractive than locally.
- **Health:** Poor diet habits take a big toll on the population where 40% of the population above 40 years old have type-2 diabetes.
- **Bureaucratic challenges:** Inconsistency in level of services provided by institutions and support given to local entrepreneurs and/or investors. Dispersion of stakeholders that makes it challenging for new investors to find their way through the administrative system. Finding a reliable partner is often the key to success in the CNMI.
- **Lack of zoning policies:** Zoning allows for a consistent and reliable planning of the territory and ensures that real estate development values are not potentially impaired by undesirable industries.

## Attractive Tax System<sup>11</sup>

The CNMI tax system is based on the U.S. Internal Revenue Code (IRC). However, taxes are significantly lower than in the U.S. There is no federal, sales, other city, state, or county tax. The present tax system, by giving tax rebates, is designed to provide business incentives. The Northern Marianas imposes a local tax on wages and salary and another on earnings that reach 9% if the wages or earnings exceed \$50,000. A third tax is imposed on business gross revenue reaching 5% on revenues in excess of \$750,000. The income tax laws of the U.S. are enforced as a local Northern Mariana Territorial Income Tax (NMTIT). Pursuant to the covenant and CNMI law, every person subject to NMTIT is entitled to a rebate ranging from 50-90%. Generally businesses pay up to 5% tax on their gross income.

1. **Qualifying Certificate** - This program provides rebates for new businesses in specific target industries, up to 100% for a period of up to 25 years. The Commonwealth Development Authority (CDA) is responsible for granting Qualifying Certificates. These businesses must meet minimum investment requirements such as:
  - a) \$0.1 million in Internet-related business
  - b) \$1 million in franchise restaurant, water park, aquarium, cultural or convention center, dinner theatre, aviation related activity, manufacturing
  - c) \$5 million in resort hotels and condominiums
  - d) \$10 million in a theme park
  - e) \$0.5 million in special events and other projects not listed above, approved by a legislative resolution, and contributing to the economic development of the CNMI
2. **User Fee** - User fee is 3.5% of the gross value of merchandise and is levied when the CNMI Government makes certification for export under General Headnote 3(a) treatment. Items manufactured for export are exempt from only the Gross Revenue Tax, but are subject to a user fee calculated from the export value of the items. The user fee is treated as a non-refundable credit against calculated income tax reported on the corporation's income tax return.
3. **Customs and Tariffs** - General Head Note 3 (a) of the Revised Tariff Schedules allows articles grown, manufactured or produced in the Northern Mariana Islands to be imported to the U.S. free of duty if 70%<sup>12</sup> or less of the value of the product is derived from foreign materials.

<sup>11</sup> Source: Parsons, Behle & Latimer - <http://www.parsonsbhelelaw.com/publications.php?id=136>

<sup>12</sup> 50% or less for garments.

4. **Free Trade Zone**<sup>13</sup> - Foreign and domestic merchandise of every description (not prohibited by law) may be admitted to the FTZ free of customs. The activities that may take place within the FTZ are virtually unlimited. As long as the finished product is exported, no customs duty is imposed. To operate in an FTZ, a business must obtain a license from the Board of Directors of the Commonwealth Free Trade Authority (the “Board”). The Board will consider the economic impact of the activity, the amount of capital invested, a cost/benefit analysis of the activity, its environmental impact, its impact on other Northern Marianas businesses, its labor requirements and to what extent the business will employ and retain resident workers. A licensee must obtain insurance at its own expense and release and indemnify the Board from most claims. A licensee may be exempt from the 5% business gross revenue taxes and the excise tax (duty) on importation on use of equipment and machinery in the FTZ. The duty free treatment extends to raw materials consumed in the FTZ including food “utilized in the daily operations of the business.” A 100% rebate of income tax is available to the extent resident workers are employed in the FTZ and the income is domestic source. Licensees will be exempt from taxes on developers and taxes on exports for twenty years. However, the Board determines the actual percentage of reduction. Licensees may hire non-resident workers under the Northern Mariana’s rather generous rules (there is a moratorium on hiring nonresident workers generally) but must pay the U.S. minimum wage. An effort is being made to provide one-stop shopping with the Board for all licenses necessary to conduct business in the FTZ including environmental and coastal development licenses.

### Unique Labor and Wage Laws

The CNMI’s minimum wage is not aligned with U.S. federal minimum wage. At \$3.05 per hour, the minimum wage in the Northern Mariana Islands gives the CNMI a competitive edge in the global economy. This has allowed garment manufacturers to still compete with low-cost producers from other emerging markets where salaries can be up to 10 times less than those on the CNMI.

### Immigration

The Covenant stipulates that the CNMI can control and regulate its own immigration policy, in lieu of specific U.S. regulations. This unique advantage allows the Northern Mariana Islands to rapidly establish its garment manufacturing industry through an inflow of nonresident workers.

Currently the CNMI is largely dependent on an imported work force, which makes up 58% of the total population, or approximately 46,000 people.

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<sup>13</sup> Source: Parsons, Behle & Latimer - <http://www.parsonsbehlelaw.com/publications.php?id=136>

## INVESTMENT REGULATORY ENVIRONMENT

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The travel industry also benefits from the CNMI's local immigration control because obtaining a tourist visa to the Northern Mariana Islands is relatively easy for Chinese citizens (unlike obtaining one for the United States) who comprise a new tourist segment growing at a rapid rate and regarded as the most promising market.

Finally, the education sector could take advantage of the relatively easy process for foreign students to obtain a visa to the Northern Mariana Islands, and thus establish education programs designed for foreign students.

### **Property Ownership (Article XII)**

Property ownership is limited to local Chamorros and Carolinians.<sup>14</sup> Land owners are not allowed to sell their properties to non-Chamorros or non-Carolinians. Land owners are allowed, however, to lease their land for a period up to 55 years. In the past land ownership issues have caused some concerns in the investment community, especially as it relates to long term investment schemes. Problems have also arisen from titles that were not "clean." Any transaction that involves properties needs to be handled very carefully to avoid any unpleasant surprises.

### **Jones Act Exemption**

The Jones Act (U.S. Merchant Marine Act of 1920) requires that vessels used to transport cargo and passengers between U.S. ports be owned by U.S. citizens, built in U.S. shipyards, and manned by U.S. citizen crews. This Act and relevant statutes, known as cabotage laws, are the foundation of the U.S. maritime industry. However, these regulations do not apply to the CNMI, which can use this advantage to attract ships under foreign flags, including cruise ships. This exemption offers great opportunities for the CNMI to develop a strong transshipment industry and U.S. custom pre-clearance hub.

Nearly 90% of commercial vessels docking in U.S. ports fly non-U.S. flags. This is because foreign crews are one third to a half that of American crew costs, and American ship costs are 25% to 100% more than that of foreign ships.

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<sup>14</sup> The acquisition of permanent and long-term interests in real property within the Commonwealth shall be restricted to persons of Northern Marianas descent. A person of Northern Marianas descent is a person who is a citizen or national of the United States and who is of at least one-quarter Northern Marianas Chamorro or Northern Marianas Carolinian blood or a combination thereof or an adopted child of a person of Northern Marianas descent if adopted while under the age of eighteen years.

## NATURAL RESOURCES

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The Northern Mariana Islands are 83% limestone. This abundant resource can be used in construction of buildings.

Large reserves of volcanic ash (pozzolan) are found on Pagan Island and have been said to provide a substantial economic potential for exploitation and use by the cement industry as a strengthening additive.

The Northern Mariana Islands' tropical climate and rich soil are one of the most important untapped natural resources. Arable land comprises 15 % of the Commonwealth, but only 6.5% (117,760 acres) are currently being used for permanent crops. Land for agricultural production is available on Saipan, as well as on Tinian and Rota. A wide variety of horticultural and agricultural products can be harvested on the Mariana Islands.

Marine resources include substantial fishery stock for commercial fishing of skipjack, mahi-mahi, and yellow fin tuna. High-end bottom species like onaga, pink snapper are also found in abundance. The coral reefs of the Northern Mariana Islands boast some of the most diverse aquaculture species in the world, including such exotic and rare species as the bioluminescent Angler Fish, which lives in the Marianas Trench.

## ECONOMIC DEVELOPMENT OPPORTUNITIES

While tourism in the early 1990's has been the growth engine for the CNMI, the volatility of the industry makes it difficult for the Mariana Islands to build a strong long-term sustainable economy. The garment industry, in many ways, has provided for the loss in GBR in the tourism sector (see table below<sup>15</sup>) over the past eight years. With the prospect of the garment industry losing steam, the CNMI needs to put in place several industries that are not dependant on inbound visitors and can guarantee a sustained stream of revenues for the economy.

<b>Gross Busines Revenues (\$Millions)</b>							
	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Tourism (\$M)*	589	556	392	401	423	355	380
%	26%	21%	18%	18%	19%	16%	19%
Garment (\$M)	554	688	793	803	783	747	473
%	25%	26%	35%	36%	35%	33%	24%
<b>Total</b>	<b>2,225</b>	<b>2,610</b>	<b>2,238</b>	<b>2,213</b>	<b>2,256</b>	<b>2,233</b>	<b>2,009</b>

\* Estimated GBR calculated as number of visitors x \$800 (estimated average spending per visitor)

It is important to think about industries that are compatible and consistent with the image of the Mariana Islands as a tourist destination. These industries need to be respectful of the environment, while supporting the development of local infrastructure, and participating in increasing the level of the local education system and standard of living.

This report identifies four focus sectors as strategic areas that could participate in providing the CNMI with the economic independence that it is pursuing.

### **Focus Sectors:**

- Transshipment (US Customs pre-clearance, free trade zone)
- Tourism (Chinese tourists, ecotourism, gaming)
- Film industry (production and post-production)
- Education

Additional opportunities are also available to mainland investors and/or partners to participate in the growth of the CNMI's economy:

- Utilities privatization (Water, sewage, and energy)
- Retirement communities
- Spring water on Rota
- Exotic plants, fruits, and flowers (Fumigation plant)
- Agricultural products
- Telecommunication
- Financial services – Wealth management

<sup>15</sup> Source: Compilation from Commonwealth of the Northern Mariana Islands – Economic Report – October 2003 – Bank of Hawaii, pp11, 14.



**Transshipment (US Custom Pre-Clearance, Free Trade Zone)**

**Overview.** Given the growing global need for container transport, the evolution of increasing container vessel size, and the consolidation of mainline container shipping companies, demand for effective strategic transshipment is increasing. The CNMI is very well positioned to play an active role in providing a new transshipment option to global shipping companies.

The objectives of transshipment are:

- Reduce the total cost of collecting and/or distributing containers to and from numerous origin and destination ports.
- Make the whole supply chain more efficient and more responsive to the increasingly strict demands of an ever-changing global market place.

Other incentives driving transshipment are the potential for reducing the impediments and costs of cabotage. This is of particular importance when the Jones Act is imposed on larger economic regions such as the United States and its Territories.

Other advantages of transshipment are opportunities for cargo consolidation or deconsolidation and value added activities such as assembly, calibration, and customizing to meet specific local or time varying demands.

In order for a location to be considered as a potential transshipment hub, it must meet the following criteria:

- **Geographic convenience** – Needs to be close to major shipping routes to minimize vessel deviation. Needs to be central to regional ports to minimize feeder vessel transit time and expense.
- **Adequate physical location and equipment** – The harbor needs to be deep water and both the loading/unloading and the land storage infrastructure needs to be sized appropriately.
- **Operational flexibility** – Ability to handle efficiently vessels of vastly different size, configuration, and operational requirements. Develop flexible procedures and empower employees to make well informed decisions in a culture of continuous improvement.
- **Continuous reinvestment in facilities and personnel** – Terminal operators are obliged to provide the infrastructure to handle increasingly large container vessels.
- **Thinking beyond transshipment activities** – A port entirely dependent on transshipment traffic is more vulnerable to vast fluctuations in carrier traffic because it is not linked to a specific, defendable local market. The creation of a free trade zone, in which value added activities may take place, is a meaningful and economical advantage that will differentiate the transshipment hub from other destinations.



## ECONOMIC DEVELOPMENT OPPORTUNITIES

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The CNMI benefits from their **ideal geographic location** as the gateway between Asia and North America, **U.S. flag protection**, the **exemption from the Federal Jones Act** (cabotage), and from **free duty access to the U.S.** for products with a minimum of 30% of added value generated in the CNMI (or 50% for garment products).

As a U.S. Commonwealth, and as security concerns in the United States are growing, the CNMI can potentially provide U.S. Custom pre-clearance services, alleviating the increasing stress put on U.S. Custom services on the mainland due to growing import volume from Asia. This report recommends the CNMI to consider establishing a combine Container Security Initiative (CSI) and Customs-Trade Partnership Against Terrorism (C-TPAT) program.

Finally, the CNMI enjoys the ability to export, free of duty, products made in the CNMI to the USA. With the development of free trade zones, the CNMI can host companies who seek to take advantage of this unique feature, and within the confinement of a free trade zone would undertake value added activities.

**Opportunities.** The port of Saipan offers many opportunities for shipping companies and manufacturers alike.

- a) Port of Saipan is exempted from Jones Act (cabotage issue) and allows foreign carriers to move cargo from Saipan to any US port. Foreign carriers offer lower operating cost to US vendors due to non US rates. Most US ports, i.e. Guam, Hawaii, US mainland, are subject to the Act. No foreign carriers can move cargo between US ports.
- b) If US Customs' pre-clearance services are made available at the Port of Saipan, shipping firms will realize savings by bringing the bulk of its cargo here to be reassembled and US Customs' pre-cleared before sailing to the next US port. At the port of destination in the US, cargo is off loaded and delivered directly to vendors without any further government inspection process. U.S. Customs pre-clearance is not yet available in the CNMI.
- c) Handling of TEU's is to be performed by privatized firm at a lower rate than Guam's government operated stevedoring services.
- d) Saipan is the closest US port to Asian countries.

The Port of Saipan recently completed an over \$40 Million improvements which include expanding berthing areas from the original 500 linear ft to over 2,400 linear ft (3 ships at any given time). The channel is widened to 400 ft and the turning basin is expanded. The harbor is minus 40 ft and safe for all commercial vessels.

In the past year, a major shipping company was interested in transshipping at the Port of Saipan for the Micronesian islands. The plan was to use one of its large vessels of over

## ECONOMIC DEVELOPMENT OPPORTUNITIES

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900 ft with capacity of 2,000 containers and distribute cargo from Saipan using existing smaller carriers. The trial run resulted in 8 hours early arrival as opposed to Guam port.

In the near future, additional public land from MPLA will be transferred to CPA for needed land area to accommodate current and future need for container storage and queuing. Furthermore, stevedoring will improve its current 8 container movement per hour up to 18 within a 3 year period.

The Commonwealth Ports Authority is currently looking at further developing transshipment activities to take full advantage of the unique opportunities available in the CNMI and will entertain interests in investments and cooperation in order to develop this industry that can potentially benefit the CNMI and its population at large.

The U.S. Customs may also be interested in considering the CNMI as a Custom pre-clearance hub for vessels going to the mainland. U.S. Customs could benefit by establishing a forefront Custom center in the CNMI.

Light manufacturers may benefit from free trade zones and free import duty to the U.S. by undertaking value-added operations such as assembly or customization work. Effective September 22, 2000 the Northern Marianas established a 20-hectare free trade zone near the Saipan International Airport. Other free trade zones ("FTZs") may be established at a later date. Land within the FTZ is available for lease from the government at attractive rents. Foreign and domestic merchandise of every description (not prohibited by law) may be admitted to the FTZ free of customs. The activities that may take place within the FTZ are virtually unlimited. As long as the finished product is exported, no customs duty is imposed.

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## Tourism

**Overview.** Tourism in the CNMI has suffered over the past few years, but it continues to offer very attractive investment opportunities. Three main areas have been identified as the next major drivers of the tourism industry in the CNMI.

- Chinese tourists
- Ecotourism
- Gaming industry on Tinian

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According to a forecast from the World Tourism Organization, China will have 100 million outbound travelers and become the fourth largest source of outbound travel in the world by 2020. The CNMI plans to jump on the Chinese market bandwagon and position itself as a destination of choice for this market segment.

The most popular destinations for Chinese travelers are within the Pacific Rim, where most of the Approved Destination Status (ADS)-destinations are located. These account for 70% of the total outbound Chinese market. The ADS allows countries to promote their destinations in Chinese markets and receive tourist groups through official outbound travel agents authorized by the Chinese National Tourism Association. Approval of the CNMI is under consideration and is expected within a year.

According to recent data from MVA, arrivals from China demonstrated a spectacular growth, beginning with a 38% increase in 2001 and following with almost 400% increase in 2002. During the first quarter of 2003 (preceding SARS outbreak), the average monthly growth was 770%.

The Chinese outbound market presents a tremendous opportunity for the CNMI. The Northern Mariana Islands have the characteristics that appeal to Chinese travelers. In order to further capitalize on Chinese tourists, the Northern Mariana Islands should cater more to this new market segment by providing Mandarin Chinese speaking services, additional Chinese food options, cultural activities geared towards the Chinese crowd.

The tourism industry can further take advantage of the CNMI immigration laws that facilitates visa procedures for Chinese travelers. By targeting Chinese tourists and thus adapting its infrastructure and services accordingly, the CNMI will be able to capture an increasing share of that market and provide for a stable inflow of revenues.

The Adventure Travel Society defines ecotourism as “*environmentally responsible travel<sup>16</sup> to experience the natural areas and culture of a region while promoting conservation and economically contributing to the community<sup>17</sup>*”. If ecotourism is properly implemented,

- it integrates conservation and rural development by helping to protect valuable natural areas
- by generating income, it stimulates economic development through tourism expenditures and provides jobs and markets for local goods.

The effect on the local level can be anywhere from minimal to substantial, depending on the scale of ecotourism relative to the size of the local economy. Rota, with its exceptional cultural and environmental heritage, is well suited to the successful development of ecotourism.

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<sup>16</sup> Ecotourism implies that the tourist, the agent, the tour operator, the hotelier and everyone involved have a responsibility to assess and control their impact on the environment.

<sup>17</sup> The local communities are to be involved in the economic benefits brought by tourists.

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The island of Tinian hosts the world-class Tinian Dynasty Hotel and Casino, located along the beautiful tropical coastline of the island. Tinian International Airport runway was further expanded to receive direct flights from China. It is estimated that the new airport will be able to bring as many as 250,000 visitors, annually, to Tinian.

Given the successful example of a \$2 billion gaming industry in Macau, which contributes 30% of its GDP and generates over 50% of government tax revenues, the prospective for Tinian to expand this industry looks promising. Tinian's gaming industry would provide a viable source of economic growth for the island in the form of increased revenues and employment for the local population.

The key to the success of Tinian as a gambling destination lies in its ability to attract sufficient numbers of tourists, especially from China. Due to the poor infrastructure available, bringing tourists to Tinian in the past 6 years has been quite challenging. The new runway at the airport is seen as a very positive sign towards increasing development.

**Opportunities.** Investment opportunities are available in many areas in the tourism industry in the CNMI. Investors and potential partners are welcome to come forth with proposal to develop tourism towards the Chinese market, ecotourism, and the gaming tourism.

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## Film Industry

**Overview.** Northern Marianas two-year College has developed a unique public/private partnership with the Pacific Rim Academy to offer Certificates and Associates Degrees in applied sciences in the field of film and TV production and post production. The principals of the Pacific Rim Academy are experienced professionals from Hollywood that have earned prestigious awards such as an Oscar for "Best sound in the *Hunt for Red October*," and an Emmy for "Best Sound in an Animated Series."

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Due to its close proximity to Asia and its favorable climate, the CNMI could become a very popular destination for the production of movies, television shows, commercials, music videos, and was recently home to the Japanese version of “*Survivors*.” The principals of the Pacific Rim Academy are also focused on developing a post-production industry on Saipan so that Hollywood motion picture projects can have their work conveniently done in the CNMI.

Audio and video post production courses at Northern Marianas College have current enrollment of 24 students each year.

**Opportunities.** Each of the Northern Mariana Islands has its own distinct qualities, which make this Western Pacific paradise an ideal choice for a wide array of film and television projects. From spot commercials to full length feature films, the Northern Mariana Islands offers agencies, production companies and studios an unlimited number of location options.

The lush green, leafy tropical environment is always in season. Located near the famed Marianas Trench, the islands are ringed with pristine coral reefs and teeming with colorful marine life. For underwater locations, the Northern Mariana Islands can't be beat, while protected tropical lagoons, bays and inlets offer quiet, unique settings where the business of film making can proceed undisturbed.

As the scene of some of the fiercest fighting in the Pacific during World War II, today, unique sights left over from the war era are available for creative film makers, producers and directors to incorporate into modern day epics.

The people of the Commonwealth are very proud to be citizens of the United States. The Northern Marianas are a "right to work" jurisdiction, where English is the official language and U.S. laws apply.

Budget conscious directors and producers will find a business friendly atmosphere and a plentiful supply of talented skilled and semi-skilled workers without the burden of the federal U.S. minimum wage. And, like the incredible locations you'll find here, the Northern Mariana Islands offer production companies unique incentives where it counts the most: the bottom line.

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### Education Industry

**Overview.** One very promising opportunity for economic growth is the development of educational programs in the Northern Mariana Islands attracting foreign students to obtain English as Second Language (ESL) training or advanced degrees recognized by the U.S. education system to potentially enter Universities on the mainland.

Foreign students would provide the critical mass necessary to attract high-level faculty and allow the education institution to have the financial backbone required to invest in best-in-class infrastructures and programs. This development would benefit both local as well as international students.

In 2002 more than 200,000 Asian nationals were studying in the U.S. on student visas and paid on average \$12,000 in tuition and \$16,000 in room and board per year. However, the lucrative Asian student market is still untapped by the CNMI. The CNMI has the unique potential to attract students from Asia due to its local control over immigration - an advantage that is crucial in light of recent stringent immigration requirements and the adverse impact of the U.S. immigration policy on the number of student visas granted.

Educational initiatives of the CNMI Government will bring substantial short-term and long-term benefits for the local community and give the private and public sectors access to a qualified labor force. The local population will further benefit from lower costs subsidized by higher fees paid by non-resident students.

**Opportunities.** The *Pacific Gateway* project developed by the new administration of the Northern Marianas College (NMC) is a part of the Governor's Office economic stimulus package recently submitted to the Legislature. It presents an opportunity to capitalize on the CNMI's competitive advantages and to attract students from the Pacific Rim. It is also an opportunity to compete for CNMI students who would otherwise choose U.S. mainland educational institutions.

The recent "Saipan University" fiasco, a scam that was intended to attract Chinese students to study in Saipan, but did not deliver on its promise, has provided a very negative example and discouraged the potential Chinese market.

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## BUSINESS OPPORTUNITIES

Investment projects and business opportunities are available in various sectors and areas. A short list of the types of projects available in the CNMI is provided below:

Sector	Project Name	Description
Utilities	Energy, water and sewage privatization	<ul style="list-style-type: none"> <li>- Become a supplier or contractor for infrastructural projects</li> <li>- Privatization of energy, water and sewage activities of the Commonwealth Utility Corporation (CUC)</li> </ul>
Utilities	Energy	<ul style="list-style-type: none"> <li>- Develop renewable energy projects</li> </ul>
Agribusiness	Exotic fruits, plants, and flowers	<ul style="list-style-type: none"> <li>- Exotic fruits and plants farming for export and domestic markets</li> <li>- Tropical flower production for export markets</li> </ul>
Agribusiness	Fumigation plant	<ul style="list-style-type: none"> <li>- Develop and manage a fumigation plant to support fruits, flowers and plants exportation</li> </ul>
Agribusiness	Honey production	<ul style="list-style-type: none"> <li>- Develop honey production for the local market</li> </ul>
Natural resources	Spring water source	<ul style="list-style-type: none"> <li>- Exploit most pristine spring water source in Micronesia on Rota</li> </ul>
Natural resources	Pozzolan Mining	<ul style="list-style-type: none"> <li>- Exploitation of pozzolan on Pagan island as a additive to cement</li> </ul>
Information	Telecommunication	<ul style="list-style-type: none"> <li>- Invest in new fiber optic cable from Saipan to Guam</li> </ul>
Financial services	Trading	<ul style="list-style-type: none"> <li>- Establish trading company to benefit from tax environment</li> </ul>
Marine Infrastructure	Deep Sea Marina	<ul style="list-style-type: none"> <li>- Development of Smiling Cove Marina (Saipan)</li> <li>- Development of Marina on Rota</li> </ul>
Hotel resort	Hotel Pau-Pau	<ul style="list-style-type: none"> <li>- Renovate and develop hotel Pau-Pau on Rota</li> </ul>
Ecotourism	Zip line	<ul style="list-style-type: none"> <li>- Establish an adventure cable line (i.e., zip line) on Rota</li> </ul>
Tourism	Sugar cane train	<ul style="list-style-type: none"> <li>- Develop a 'sugar cane train' from the Airport to SongSong village on Rota to be used by tourists and as mass transportation</li> </ul>
Casino	Casino on Tinian	<ul style="list-style-type: none"> <li>- Develop a new Casino on Tinian</li> </ul>
Ecotourism	Chamorro cultural conservation	<ul style="list-style-type: none"> <li>- Develop the Chamorro and Carolinian cultural heritage for tourism</li> </ul>
Healthcare	Retirement communities	<ul style="list-style-type: none"> <li>- Develop retirement communities</li> </ul>
Transshipment	Transshipment, US Custom pre-clearance, Free Trade Zone	<ul style="list-style-type: none"> <li>- Investment in transshipment infrastructure</li> <li>- Development of Free Trade Zone</li> </ul>
Film	Production and Post-production	<ul style="list-style-type: none"> <li>- Develop film production and post-production</li> </ul>
Education	Pacific Gateway Project	<ul style="list-style-type: none"> <li>- Develop ESL program for foreign students</li> </ul>
Agribusiness	Distribution of tropical products	<ul style="list-style-type: none"> <li>- Representation and distribution of local tropical products (Chili sauce, pickled fruits and vegetables...)</li> </ul>
Logistics	Mail forwarding services	<ul style="list-style-type: none"> <li>- Develop mail forwarding services for the CNMI and potentially other pacific islands</li> </ul>
Security	Security services	<ul style="list-style-type: none"> <li>- Partnership with local security service company</li> </ul>
Agribusiness	Bakery products	<ul style="list-style-type: none"> <li>- Partnership with local bakery to broaden product base</li> </ul>
Consulting services	Business development in the CNMI	<ul style="list-style-type: none"> <li>- Partnership with local consultant to establish business operation in the CNMI</li> </ul>



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Comprehensive government listing: <http://www.saipan.info/government.html>

Local search engine and directory: <http://www.saipan.info/>

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